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RR RUEHNEH
DE RUEHEK #0409/01 1180824
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R 280824Z APR 09
FM AMEMBASSY BISHKEK
TO RUEHC/SECSTATE WASHDC 2138
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 3058
RHEFDIA/DIA WASHDC
RUEKJCS/OSD WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 1354
RUEHVEN/USMISSION USOSCE 3400
RUCNDT/USMISSION USUN NEW YORK 2786
RUEHNO/USMISSION USNATO BRUSSELS BE
RUEHBS/USEU BRUSSELS
RUEHLMC/MILLENNIUM CHALLENGE CORP
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000409

SIPDIS

DEPT FOR SCA/CEN, EEB/IFD/OMA

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TAGS: [EAID](#) [ECON](#) [PGOV](#) [PREL](#) [KG](#)

SUBJECT: KYRGYZSTAN PRIMED FOR WINDFALL IN ADVANCE OF
PRESIDENTIAL ELECTION

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Classified By: Amb. Tatiana Gfoeller, Reason 1.4 (b) and (d).

11. (C) Summary: The Kyrgyz government is looking at an eight-fold increase in direct donor support this year. As a result of the London G-20 Summit decision to boost IMF resources, the Kyrgyz Republic appears eligible for an additional \$100 million in IMF assistance that would augment \$222 million in existing and planned support from the IMF and other donors. Russian aid, in the form of a \$150 million grant received in early April, is being disbursed, and Kyrgyz officials are planning to spend an additional \$300 million low-interest rate Russian loan on financing various business ventures. The Kyrgyz government has reached agreement with the Canadian operators of the large Kumtor gold mine that, if approved by the Kyrgyz Parliament, would grant the Kyrgyz government additional shares in the Canadian parent company and an immediate tax payment of \$22.4 million. The influx of funds will likely aid Kyrgyz White House efforts to marshal all available support to reelect President Bakiyev this July.
End Summary.

International Donors Provide Financial Support

12. (SBU) Despite having largely escaped recent global economic and financial turmoil, the Kyrgyz Republic is benefiting from coordinated measures designed to combat these global problems. James McHugh, the International Monetary Fund (IMF) Resident Representative in the Kyrgyz Republic, told Embassy April 23 that, as a result of the recent G-20 Summit decision to boost IMF resources, Bishkek's current IMF Special Drawing Rights quota would make it eligible to access an additional \$100 million in IMF funds. This support, he continued, would augment existing lending to the Kyrgyz Republic through a \$100 million Exogenous Shock Facility agreed in 2008. McHugh added that the World Bank planned to extend \$60 million in unspecified assistance to the Kyrgyz Republic, and said that the Asian Development Bank would be committing \$30-40 million and China \$32 million, mostly in grants.

Spending Russian Money

¶3. (C) Following Bishkek's early April receipt of \$150 million in Russian aid, McHugh, who has routine access to Kyrgyz Central Bank data, confirmed that Kyrgyz authorities had already disbursed \$20 million of the Russian funds and expected another \$25 million to be disbursed soon. Kyrgyz officials anticipate that Russia will send a promised \$300 million low-interest (0.75%) loan to Bishkek by the end of April. (Note: Moscow's decision to provide Bishkek these funds and other financial support coincided with Kyrgyz President Bakiyev's early February announcement to close Manas Air Base. End note.)

¶4. (SBU) Sanjar Mukanbetov, Deputy Minister of Economic Development and Trade, told a business group April 20 that the \$300 million Russian loan would be used solely for developing business ventures. Mukanbetov said that the funds would be channeled through the (inactive) Kyrgyz Development Fund and commercial banks. With Kyrgyz officials proposing to lend these funds at rates of 13.5% to 20%, ostensibly in order not to displace private sector lending, there has been no public clarification of what will happen with the profits accruing from the spread between the 0.75% Russian interest rate and the "commercial" rate to be charged to selected borrowers.

Finalizing the Kumtor Deal

¶5. (C) Shortly after the Kyrgyz Constitutional Court's

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mid-March announcement that the next Presidential election should take place in 2009, Kyrgyz officials approached Kumtor Operating Company (the Canadian operators of the Kumtor gold mine operation) to jumpstart long-stalled negotiations over a renewed agreement. Kumtor's Canadian parent company, Centerra Gold, announced April 24 that agreement had been reached with Kyrgyz authorities, who later indicated that the agreement would be introduced for Parliamentary review April 30. The revised agreement increases the Kyrgyz Republic's share in Centerra, but sets timelines for potential liquidation of these shares. Of more immediate note is a \$22.4 million tax payment to the Kyrgyz government, which, local Kumtor officials advised Emboff, appeared to be a main impetus for Kyrgyz interest in reaching agreement.

Comment

¶6. (C) With the pro-Presidential Ak Jol Party expected to nominate (as early as May 1) President Bakiyev as its candidate for the July 23 Presidential election, the Kyrgyz White House will be marshaling all available resources to enable Bakiyev's reelection. The windfall of donor funds, Russian aid, and Kumtor payments provides an ample pot from which Kyrgyz authorities can aid Bakiyev's prospects. As the influx of funds covers budgetary shortfalls and other short-term needs, it may also lessen the Kyrgyz appetite for reforms or other agreements that come with strings attached. GFOELLER